UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/51/802
20 February 1997

ORIGINAL: ENGLISH

Fifty-first session
Agenda items 116 and 141

PROGRAMME BUDGET FOR THE BIENNIUM 1996-1997

REPORT OF THE SECRETARY-GENERAL ON THE ACTIVITIES OF THE OFFICE OF INTERNAL OVERSIGHT SERVICES

Note by the Secretary-General

1. Pursuant to General Assembly resolutions 50/214 of 23 December 1995 and 48/218 B of 29 July 1994, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services on the audit of Headquarters catering operations.

2. The Secretary-General notes that measures have been taken or initiated to correct many of the issues addressed in the review and concurs with the recommendations contained in the report.

97-04506 (E) 280297

/...

ANNEX

Report of the Office of Internal Oversight Services on the audit of Headquarters catering operations

SUMMARY

A. Results in brief

At the request of the General Assembly, the Office of Internal Oversight Services audited the management of the United Nations catering facilities at Headquarters. Since 1986, those facilities have been operated by a contractor under a profit and loss arrangement.

The audit included a review of the contractual arrangement and of United Nations monitoring of contractor performance, as well as an analysis of the operating statements submitted by the contractor to the United Nations. This report also discusses relevant audit findings regarding catering operations at the United Nations Office at Geneva and the International Trade Centre UNCTAD/WTO.

The current contractual arrangement helped the United Nations to avoid further financial losses from catering operations. Although that constituted a major improvement over the prior situation, the General Assembly's desire to make catering operations financially self-supporting to the extent possible was not achieved. Nor did the contract assure the most effective use of the Organization's resources.

The contract provided for the contractor to retain, as a management fee, the excess of gross receipts over operating expenses and to absorb any losses. However, operating expenses excluded direct and indirect costs incurred by the Organization in providing and maintaining the facilities (space, utilities, major equipment). Thus, the contractor, with limited capital investment, retained a significant profit of more than US$ 12 million over the 10-year period from 1986 to 1996, while the United Nations continued to subsidize the catering operation. The United Nations could have secured a fair share of this profit or ensured reimbursement of its costs incurred in the operation if such provisions had been included in the contract.

The contractor in effect operates and manages the Headquarters catering facilities for the United Nations. All cash collections from customers and purchases of food, beverages and supplies are made on behalf of the United Nations. If the contractor were unable to meet its financial obligations, the United Nations could be held liable.

In order to properly safeguard its assets, the United Nations must check the accuracy and appropriateness of the transactions carried out in its name. The Office of Internal Oversight Services found that adequate monitoring procedures were generally not performed by the Organization.

B. Recommendations

The Office of Internal Oversight Services recommends that:

(a) The objectives of United Nations catering operations be clearly defined;

(b) The catering operation at Headquarters be completely outsourced, with the United Nations maintaining adequate monitoring of the contractor's performance in accordance with the terms and conditions of the contract;

(c) All costs incurred by the United Nations in providing catering facilities and equipment be identified and, to the extent possible, reimbursed by the contractor;

(d) A reasonable and equitable profit-sharing arrangement between the United Nations and the contractor be implemented;

(e) Vendor selection criteria be clearly established;

(f) Annual audited financial statements for the catering operations be submitted by the contractor;

(g) In addition to consumer price indicators, quality assurance indicators be included in the contract;

(h) Catering committees be reactivated and monitoring of catering operations be strengthened;

(i) Regular health inspections of the facilities and health examinations of the employees as well as proper maintenance of the facilities and its major equipment be ensured.

The Office is pleased to note that its audit recommendations have been reflected in the new request for proposal and will be taken into consideration in developing the new contract for the United Nations catering operation.

CONTENTS

		Paragraphs	Page
I.	INTRODUCTION	1 - 3	5
II.	CONTRACTUAL ARRANGEMENTS	4 - 12	5
III.	MONITORING OF CATERING OPERATIONS	13 - 16	6
IV.	CRITICAL SUCCESS FACTORS FOR CATERING OPERATIONS	17 - 31	7
	A. Objectives	17 - 20	7
	B. Outsourcing modalities	21 - 23	8
	C. Vendor selection criteria	24 - 25	9
	D. Contract terms	26 - 28	9
	E. Monitoring contractor performance	29 - 31	10
V.	THE NEW 1997 CATERING AGREEMENT	32	10

I. INTRODUCTION

1. As requested by the General Assembly in paragraph 74 of its resolution 50/214 of 23 December 1995, the Office of Internal Oversight Services conducted an audit of the management of United Nations Headquarters catering facilities between February and June 1996. It simultaneously audited catering operations at the United Nations Office at Geneva and at the International Trade Centre UNCTAD/WTO (ITC). Audit findings at those locations are included in the present report when relevant to the assessment of the Headquarters catering operation.

2. Our audit objectives were to determine whether:

(a) The goal of making catering operations as financially self-supporting as possible had been achieved;

(b) The contractual arrangements were adequate;

(c) The contractor's performance was satisfactory and adequately monitored;

(d) United Nations assets were adequately safeguarded;

(e) United Nations rules, regulations, policies and procedures were complied with.

3. The Office of Internal Oversight Services examined the management and operations of the Headquarters catering facilities from March 1986, when the first contract with the present contractor was awarded, to March 1996, when the second five-year term expired. It reviewed the contractor selection process, the terms and conditions of the contract and United Nations monitoring of the contractor's compliance and performance, including maintenance of the general service standards. It also examined the periodic operating statements submitted by the contractor and analysed the costs charged to the operation and the profit earned over the 10-year period.

II. CONTRACTUAL ARRANGEMENTS

4. Prior to 1985, catering at United Nations Headquarters was provided by a concessionaire. While the contractor received a management fee for its services, the United Nations was to obtain any profits and to absorb any losses from the catering operations. Not surprisingly, with the concessionaire lacking a profit motive, the catering operations ran at a deficit, imposing a heavy financial burden on the United Nations.

5. In its resolution 39/67 of 13 December 1984, the General Assembly confirmed that catering operations should be financially self-supporting to the extent possible and requested the Secretary-General to take steps to rectify the situation causing the deficit.

6. In 1986, based on a request for proposal and evaluation of various factors, the United Nations awarded a five-year contract to a contractor for the management and operation of catering facilities under a profit and loss arrangement.

7. According to the contract, the contractor operates and manages the catering facilities "for the United Nations". It purchases "on behalf of the United Nations all food, beverages and other operating supplies". All gross receipts from the operation are collected by the contractor "on behalf of the United Nations". Since liabilities are incurred on behalf of the United Nations, the Organization would be ultimately liable should the contractor fail to make payments.

8. Under the current arrangement, the contractor retains any profit derived from the operation and absorbs any losses. Although the original request for proposal had stipulated and the contractor had offered a profit-sharing arrangement with the United Nations, such a stipulation was not included in the final contract. The Office of Conference and Support Services stated that this had resulted in lower start-up prices.

9. During the 1986-1991 period, the contractor retained a profit of US$ 4.7 million on gross receipts totalling US$ 46 million. The United Nations continued to bear certain costs related to space, major equipment and utilities for the catering facilities, thus indirectly subsidizing the operation.

10. In 1991, without rebidding, the United Nations extended the contract for another five-year period under the initial profit and loss arrangement. The contractor, in exchange, agreed to grant a price freeze for certain items and to contribute to certain investments. During the period from 1991 to 1996, the contractor's profit increased to $7.4 million, with gross receipts decreasing slightly, to $43 million.

11. Had the United Nations included a profit-sharing clause in the contract, as originally requested and offered, its profit share would have been close to $5 million between 1986 and 1996. Even including a profit-sharing clause at the time of contract extension in 1991 would have generated $3.7 million for the Organization.

12. The Office of Internal Oversight Services acknowledges that the current contract, which represents a significant improvement over the prior situation, has protected the United Nations from having to absorb any losses. However, in its view, management failed to secure for the Organization a fair share of profits generated and did not ensure reimbursement of costs incurred by the United Nations in the catering operations.

III. MONITORING OF CATERING OPERATIONS

13. Quarterly operating statements submitted by the contractor were not critically reviewed nor discussed with the contractor except in two instances. Although the contractor managed the catering operation on behalf of the United Nations, it had no obligation to submit annual audited financial statements.

Also, the United Nations had no comprehensive information on its costs related to maintaining and operating the catering facilities.

14. The Staff-Management Catering Committee, which was supposed to review quality, standards, prices, hygienic reports and conditions, as well as staff suggestions and complaints, was inactive. Suggestions and comments made by staff members had not been acted upon by the Committee since October 1994. We appreciate that, in response to the audit, the Staff-Management Catering Committee has recently been reactivated and has circulated a questionnaire to determine customer satisfaction.

15. Health inspections of the catering facilities had not been made since June 1995, and there was no contractual requirement for the contractor's staff to undergo regular health examinations. Maintenance of catering facilities by the Buildings Management Service needed improvement.

16. Frequent breakdowns of cash registers owned and maintained by the United Nations hampered cafeteria operations and adversely affected the reliability of financial information.

IV. CRITICAL SUCCESS FACTORS FOR CATERING OPERATIONS

A. Objectives

17. Clearly articulated objectives are needed. In line with the General Assembly's objective of financially self-supporting catering operations, the United Nations Office at Geneva intended that catering operations should provide food and beverages to staff members at reasonable prices, while keeping direct and indirect subsidies to a minimum. To a certain extent, that Office sought reimbursement of the costs incurred in making cafeteria facilities available to the contractor as well as its own share of the profit.

18. At Headquarters, on the other hand, the profit-sharing requirement included in the 1991 request for proposal was omitted from the final contract. According to the then Assistant Secretary-General for General Services, it had been included only to test the market on price levels and not to obtain actual financial gain. It appears that at Headquarters the direct and indirect costs incurred by the United Nations in providing the catering facilities were viewed as staff-related costs that the Organization should absorb.

19. The distinctly different financial implications of those two approaches to providing the same services are very clear. The Organization's objectives in operating catering facilities need to be reconciled, and definitive guidance should be issued to all managers of procurement and support services. Such guidance is needed at Headquarters and at the United Nations Office at Geneva, in view of the upcoming contract negotiations.

20. The Office of Internal Oversight Services recommends that the objectives of United Nations catering operations be clearly defined (AH96/151/01).

B. Outsourcing modalities

21. Different interpretations of contract objectives resulted in a variety of modalities, even with the same contractor, as was the case with the contractor at both the United Nations Office at Geneva and ITC. The modalities differ as follows:

(a) The United Nations role. Whereas catering at Headquarters has been considered a United Nations operation managed by a contractor for the Organization, operations at the United Nations Office at Geneva and ITC have been outsourced to a contractor that is fully responsible. At Headquarters, the United Nations could have been financially liable if the contractor were unable to meet its financial obligations;

(b) The enumeration of the costs to be borne by the parties and cost-recovery mechanisms. At the United Nations Office at Geneva the contractor pays a fee that covers the Liaison Officer's salary and related staff costs, the maintenance of equipment and the costs of electricity and water; at Headquarters, those costs are borne in full by the United Nations. Other costs, such as heating, telephone and amortization of non-expendable property (furniture and fittings, for example), were not being recovered in any of the contracts reviewed. The bases of recovery (full vs. partial, estimated vs. actual, etc.) need to be considered;

(c) The bases, if any, for sharing profits and losses. At Headquarters, the contractor receives, as a management fee, the excess of gross receipts over operating expenses and absorbs any losses. At the United Nations Office at Geneva, the contractor receives a monthly management fee of 3.5 per cent of sales. Remaining net profits are to be shared equally between the contractor and the Office, with losses being fully absorbed by the contractor. At ITC, the contractor receives a management fee, but all remaining net profits are due to the United Nations, thus offering no incentive for the contractor to reduce costs and make a profit.

22. Whereas the Office of Conference and Support Services at Headquarters has asked for "proposals for revenue sharing" in the new request for proposals, the United Nations Office at Geneva intends not to request any longer a share of the contractor's profits in view of the perceived difficulties in monitoring a contractor's profit or loss. This again shows the need for a coordinated approach. Although trade practices may cause some variation in modalities in different countries, guidelines should be established to assist managers in determining the most advantageous alternatives available to the United Nations. Defining catering objectives, as discussed above, will greatly facilitate this effort.

23. The Office of Internal Oversight Services recommends that:

(a) The catering operation at Headquarters be completely outsourced, with the United Nations maintaining adequate monitoring of the contractor's performance in accordance with the terms and conditions of the contract (AH96/151/02);

(b) All costs incurred by the United Nations in providing catering facilities and equipment be identified and, to the extent possible, reimbursed by the contractor (AH96/151/03);

(c) A reasonable and equitable profit-sharing arrangement between the United Nations and the contractor be implemented (AH96/151/04).

C. Vendor selection criteria

24. The criteria employed in vendor selection vary widely depending on how managers perceive catering objectives. Consequently, criteria include combinations of food and beverage prices, quality and variety of menu offerings, quality of food at existing facilities, qualifications of candidates for General Manager, management fees and projected profitability. Therefore, guidelines are needed regarding the criteria and weights to be applied in the evaluation process.

25. The Office of Internal Oversight Services recommends that vendor selection criteria be clearly established (AH96/151/05).

D. Contract terms

26. The audits showed the need to address the following matters in the terms and conditions of the contracts. Contractors should be required to submit annual audited financial statements to the United Nations, irrespective of the modality employed. In the final analysis, the contract is essentially a concession granted by the United Nations to secure favourable food and beverage prices for its staff. Generation of a significant profit by the Headquarters contractor, with limited capital investment, suggests that staff may not be receiving the best prices available, while the United Nations is subsidizing the catering operation. Such a situation requires remedial action. On the other hand, losses may indicate the contractor's inefficient management of the facility. Losses may also indicate low capacity utilization and the inability to sustain the operations at the agreed level, which seems to be the case with the ITC cafeteria in Geneva.

27. Movements in prices should be verified by reference to some objective price indicator, such as the Food and Beverage Consumer Price Index for the respective metropolitan area. This issue is fundamental to monitoring the maintenance of favourable food and beverage prices, and will provide important data for assessing the reasonableness of the financial return. The establishment of quality assurance indicators, such as variation in menus, queuing times, capacity utilization and reports of hygiene inspections and extermination services, should be required.

28. The Office of Internal Oversight Services recommends that:

(a) Annual audited financial statements for the catering operations be submitted by the contractor (AH96/151/06);

(b) In addition to consumer price indicators, quality assurance indicators be included in the contract (AH96/151/07).

E. Monitoring contractor performance

29. The Office found that monitoring of contractor performance was inconsistent. The mandate of the monitoring institutions should therefore be clarified to include, inter alia, an assessment of service delivery, a monthly review of operating statements, an annual review of audited financial statements, price surveys and checks of Consumer Price Index movement, and a formal evaluation of contractor performance during and at the end of the contract - the value-for-money assessment.

30. The effectiveness of the current joint monitoring institutions (the Staff-Management Catering Committee at Headquarters and the Joint Catering Committee at Geneva), which was affected by a lack of clarity in the definition of functions and by a lack of know-how and initiative on the part of committee members, as well as by the climate of staff-management relations, should be strengthened. At Geneva, a Catering Liaison Officer is engaged to complement and support the monitoring function of the Joint Committee. A similar function should be considered for Headquarters and elsewhere.

31. The Office of Internal Oversight Services recommends that:

(a) Catering committees be reactivated and monitoring of catering operations be strengthened (AH96/151/08);

(b) Regular health inspections of the facilities and health examinations of the employees, as well as proper maintenance of the facilities and its major equipment be ensured (AH96/151/09).

V. THE NEW 1997 CATERING ARRANGEMENT

32. The Office of Internal Oversight Services is pleased to note that its recommendations have been reflected in the request for proposal or will be taken into consideration in developing the new contract for the United Nations Headquarters catering operation.

(Signed) Karl Th. Paschke
Under-Secretary-General
for Internal Oversight Services